Prediction Markets

A Practical Reference for Problem Gambling Service Professionals

Prediction markets have undergone an explosion of growth over the last several years, with millions of users engaging and wagering billions of dollars per week. Recent estimates suggest total trading volume could reach $1 trillion annually by 2030.

What began as a mechanism for efficiently aggregating dispersed information and improving forecasting has evolved into a rapidly expanding ecosystem of platforms that are increasingly commercialized and intertwined with gambling-like incentives.

This document provides problem gambling professionals with a plain-language foundation for understanding what prediction markets are, how they work, and why they matter.

What Is a Prediction Market?

A prediction market is a platform that allows participants to buy and sell contracts based on the outcomes of future events. Each contract corresponds to a specific, clearly defined outcome. Common examples include a candidate winning a specific election, a city reaching a minimum temperature, and a football team winning the Super Bowl. In general, any event that can be clearly defined and whose outcome can be objectively verified can be structured as an event contract.

The largest U.S.-based prediction market is Kalshi, which, as of April 3, 2026, listed approximately 290,000 event contracts.

Polymarket is another well-known platform. While its U.S.-regulated presence is limited, it operates globally and offers tens of thousands of event contracts and processes over 26 million weekly transactions.

In addition, a growing number of other platforms, including companies like Robinhood and DraftKings, incorporate prediction markets into their ecosystems.

How Do Prediction Markets Work?

Prediction markets operate by allowing participants to buy and sell contracts tied to the outcome of a specific event. Each contract is based on a clearly defined question, such as: "Will inflation exceed 3% this year?" and are structured as binary outcomes:

- Yes: Inflation will exceed 3% this year
- No: Inflation will not exceed 3% this year

Contracts are priced between $0.01 and $0.99, and the payout is fixed at $1. If the event occurs, the "Yes" contract pays out $1 and the "No" contract pays $0. If the event does not occur, the "No" contract pays $1 and the "Yes" contract pays $0.

Example: Suppose a participant buys the "Yes" contract for $0.70.

- If the event occurs, they receive $1, resulting in a profit of $0.30 ($1 - $0.70).
- If the event does not occur, they receive $0 and lose the $0.70 they paid.

Alternatively, suppose a participant buys the "No" contract for $0.30:

- If the event does not occur, they receive $1, resulting in a profit of $0.70 ($1 - $0.30).
- If the event occurs, they receive $0 and lose the $0.30 they paid.

Participants can buy as many "Yes" or "No" contracts as they choose. In addition, they can sell their contracts at any time before the event is resolved (i.e., before the outcome is determined). In this way, prediction markets operate similarly to traditional exchanges, such as stock markets, where participants can freely buy and sell positions, allowing them to lock in gains or limit losses.

Prediction Markets as Information Aggregators and Risk Management Tools

Prediction markets are often described as mechanisms that aggregate dispersed information across many participants. Each participant brings their own knowledge, beliefs, and data, ranging from public information (e.g., economic indicators, polling data) to private insights. Through the process of buying and selling contracts, this information is incorporated into prices.

Event contracts are typically designed so that their prices closely correspond to the probability of the event occurring. In other words, if a "Yes" contract is trading at 46 cents, the implied probability of the event is approximately 46%.

As a result, prediction market prices can reflect a consensus view of the likelihood of an event, often referred to as the *wisdom of the crowd*. In some cases, these markets have

been shown to produce forecasts that are as accurate as, or more accurate than, traditional methods such as expert opinion or polling. As such, they can serve as valuable tools for society, helping to inform decision-making and guide policy.

In addition to their forecasting role, prediction markets can also serve as risk management tools. Individuals or organizations exposed to uncertainty can use these markets to hedge against unfavorable outcomes. For example, a business concerned about inflation rising above 3% could purchase a “Yes” contract on the event “Will inflation exceed 3% this year?” If inflation does rise above that threshold, the contract would pay out, helping to offset higher input costs such as wages or materials. If inflation remains below 3%, the contract would not pay out, but the business would also avoid those higher costs. In this way, prediction markets can function similarly to insurance, allowing participants to transfer or manage risk.

Prediction Markets as Gambling Platforms

Prediction markets share many characteristics with traditional forms of gambling. Participants stake money on uncertain outcomes with the possibility of financial gain or loss, and outcomes are determined, fully or in large part, by factors outside any individual’s control. Structurally, this satisfies the three criteria commonly used to define gambling: risk, chance, and prize.

Some event contracts also involve very short time horizons, further reinforcing the parallels with gambling environments. Platforms such as Polymarket offer contracts on short-term price movements; for example, whether the price of Bitcoin will rise or fall over a five-minute interval, a structure that closely resembles the rapid-cycle betting found in electronic gaming machines and in-play sports wagering.

Because participants can buy and sell contracts continuously prior to event resolution, the trading experience can encourage day-trading behavior, characterized by frequent transactions and real-time price monitoring. This pattern of engagement is often more consistent with speculative or gambling activity than with the deliberate, research-based investing with which prediction markets are sometimes associated.

Event contracts tied to sporting outcomes represent a substantial share of activity on regulated platforms, including Kalshi. Sports wagering is widely recognized as a form of gambling, both legally and clinically. Accordingly, event contracts that pay out based on the outcomes of sporting events raise similar considerations and may be viewed as functionally equivalent to gambling activities.

The Role of Skill

Prediction markets are often described as “skill-based” environments because participants can use information and analysis to inform their trading decisions. In this sense, they resemble financial markets, where outcomes are influenced by participants’ ability to interpret information more accurately or more quickly than others.

However, like sports wagering, where participants must overcome the house edge to achieve long-term profits, prediction market participants seeking sustained returns must consistently identify and act on information faster or more accurately than other participants. In other words, their predictions must outperform market prices, which reflect the aggregated *wisdom of the crowd*.

Thus, while prediction market platforms such as Kalshi and Polymarket do not set prices and therefore do not embed a traditional house edge, the challenge for participants shifts from beating the house to outperforming the market.

The Regulatory Landscape

Prediction markets are currently regulated by the Commodity Futures Trading Commission (CFTC), a U.S. federal agency that oversees derivatives markets, including futures and options on physical commodities (e.g., corn and gold) and financial instruments (e.g., currencies and interest rates). These markets have existed for decades and serve important economic functions, such as risk management (hedging against unexpected changes in fuel prices) and price discovery (e.g., expectations about the future price of corn).

The CFTC’s regulatory framework is designed around ensuring market integrity, fairness, transparency, and access, with a focus on preventing fraud and manipulation. Its mandate is primarily financial in nature and does not focus on addressing mental and behavioral health issues related to gambling, such as the development of consumer safeguards, prevention efforts, or treatment systems.

There is an ongoing legal and regulatory debate regarding the appropriate oversight of prediction markets, particularly when contracts resemble traditional forms of gambling. Some states have asserted that event contracts, especially those tied to sports outcomes, fall within their jurisdiction over gambling activities and have taken steps to challenge or restrict their availability. Several states have issued cease-and-desist orders or initiated legal actions against prediction market operators to halt activity within their jurisdictions.

To date, outcomes have been mixed, with some legal challenges succeeding while others have not. These disputes highlight an unresolved tension between state authority over

gambling regulation and federal oversight of derivatives markets. It is likely that these issues will be resolved by the U.S. Supreme Court.

Gambling Prevention Considerations

- **Prediction Market Framing**
  - Prediction markets are often presented as financial or informational tools, which may lead participants to not recognize that they are engaging in gambling-like activities.
  - This is especially relevant for youth and young adults, who may be more likely to encounter such platforms through social media and may be more susceptible to misleading or promotional content.

- **Event Contract Types Most Closely Aligned with Gambling**
  - Short-duration (horizon) markets, such as 5-minute Bitcoin price event contracts.
  - Sports-related contracts, including in-game wagering and prop bets.
  - Novelty events, such as contracts tied to highly speculative outcomes, e.g., the discovery of extraterrestrial life.

- **Proliferation of Event Contracts**
  - There are hundreds of thousands of event contracts, with topics that increasingly align with individuals' professions, hobbies, and personal interests.
  - There is low friction to participate across a wide range of contract categories (e.g., elections, cultural, health, world affairs, etc.).
  - Event contracts can be created within hours in response to breaking news or viral events, capturing attention and encouraging continuous engagement.

- **Normalization of Gambling**
  - Prediction markets are increasingly referenced in news coverage, social media, and popular culture (e.g., events such as the Golden Globe Awards), as well as in broader public discourse, which can contribute to their growing legitimacy in society.
  - Prediction markets allow individuals to wager on everyday events, such as the weather or traffic patterns. This shifts gambling away from discrete or special activities (e.g., a football game or a trip to a casino) toward routine, day-to-day experiences.

- **Legal and Regulatory Status of Prediction Markets in Oregon (April 2026)**
  - Prediction markets regulated at the federal level, such as Kalshi (but not Global Polymarket), are legal in Oregon but are not governed by Oregon's state gambling laws.
  - The minimum age for participation in prediction markets is 18.
  - Participants can wager on outcomes related to collegiate sports, which is not allowed on DraftKings operated through the Oregon Lottery.
  - Prediction markets are not subject to Oregon State gambling taxes.